

Your Buy-Sell Agreement May Be Working Against You

A short guide for owners of heavy civil construction companies on a risk that rarely shows up until the day it matters most.

Every construction company with more than one owner has a buy-sell agreement, the document that governs what happens to an owner's stake if they die, become disabled, retire, or leave. Most were drafted years ago, reviewed once by an attorney, and never looked at again.

That's a problem, because a buy-sell agreement doesn't operate in isolation. It sits on top of your loan covenants and your surety bonding program, and when it triggers, it can conflict with both at the exact moment your company can least afford it.

THREE PLACES WHERE THE CONFLICT SHOWS UP

01

LOAN COVENANTS

A buyout payment, even a well-intentioned one, can pull working capital below your minimum requirement, push your debt-to-equity ratio past its limit, or read as a "change of control" that makes your loan immediately due.

02

BONDING CAPACITY

Sureties underwrite off the same balance sheet your bank does. A buyout that weakens working capital or adds debt can shrink your bonding capacity right when a transition already has your surety asking questions about ownership continuity.

03

LIQUIDITY TIMING

If the agreement is funded by life insurance at all, it's often death-only. Disability and retirement, the triggers far more likely to happen, are frequently left with no funding source and a 30 to 90 day gap before any money would move even if there were one.

WHY THIS GETS MISSED

None of this is anyone's fault. The buy-sell agreement is usually drafted by a corporate attorney focused on ownership mechanics. The loan covenants are negotiated by a banker focused on credit risk. The bonding program is underwritten by a surety focused on your balance sheet.

Each piece is sound on its own, but nobody is looking at all three together.

That gap is exactly where risk accumulates quietly for years, until a triggering event forces all three documents to interact at once.

A FUNDING APPROACH BUILT FOR THIS INDUSTRY

High early cash value life insurance is a corporate-owned funding structure designed specifically to close this gap. Rather than sitting dormant for a decade before it builds real value, it accumulates usable cash quickly, typically **85% to 90% of premium in year one**, so it can fund a buyout without touching working capital, adding debt, or triggering a covenant.

Because the asset sits on the balance sheet as cash value rather than debt, it doesn't work against you the way a loan-funded or cash-funded buyout can. It's built to be surety-friendly and covenant-neutral from the start, not retrofitted after a problem surfaces.

WHAT THIS WOULD LOOK LIKE FOR YOUR COMPANY

The only way to know where you actually stand is to look at your buy-sell agreement, your loan covenants, and your bonding program side by side. That review typically surfaces:

- Whether your current agreement would trigger a covenant violation if executed today
- How much working capital and bonding capacity a standard buyout would consume
- Whether disability and retirement triggers have any real funding behind them
- Where a high early cash value structure would close the gap, and what it would take to put it in place

NEXT STEP

After a review, I can walk through your current buy-sell agreement, loan covenants, and bonding program together and show you exactly where the exposure sits. No obligation, no cost. Most owners are surprised by what turns up.

The first conversation is short. If it isn't worth going further, we stop there.

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